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UNCLAS SECTION 01 OF 04 ROME 002387

SIPDIS

FROM U.S. MISSION TO UN AGENCIES IN ROME

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SUBJECT: FAO FINANCE COMMITTEE NOTES DETERIORATING
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FINANCES OF FAO; PROGRAMME COMMITTEE EVALUATES SPECIAL
PROGRAM FOR FOOD SECURITY

11. SUMMARY: THE FAO FINANCE AND PROGRAM COMMITTEES MET AT FAO HEADQUARTERS IN ROME MAY 6-10. THE DIRECTOR GENERAL EMPHASIZED THE LACK OF RESOURCES APPARENT IN THE DOCUMENTS BEFORE THE COMMITTEES, FORESHADOWING A CALL FOR MORE INVESTMENT IN AGRICULTURE AT THE UPCOMING WORLD FOOD SUMMIT; FIVE YEARS LATER. THE JOINT COMMITTEE CONSIDERED INEQUITIES IN THE EXPANDING FAO COUNTRY REPRESENTATIVE PROGRAM. WE WILL REPORT SEPTEL ON THE PROGRAMME COMMITTEE MEETING.

12. THE FINANCE COMMITTEE, OF WHICH THE UNITED STATES IS A MEMBER, NOTED THE DETERIORATING FINANCIAL HEALTH OF THE ORGANIZATION DUE TO GROWING ARREARS, DECLINING INVESTMENT INCOME AND ACCOUNTING LOSSES DUE TO FOREIGN EXCHANGE RATE DEVELOPMENTS. THE FAO SECRETARIAT ALSO REPORTED ON PROGRESS ON HUMAN RESOURCE MANAGEMENT, IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS AND THE NOW INFAMOUS ORACLE (INFORMATION TECHNOLOGY) PROJECT. THE COMMITTEE AGREED TO REVIEW AUDITS OF THE NEW FAO PARTNERSHIP WITH THE GLOBAL ENVIRONMENT FUND (GEF), AND DISCUSSED WORLD FOOD PROGRAM REPORTS, INCLUDING ON INDIRECT SUPPORT COST (ISC) RATES.

13. THE SPECIALIZED COMMITTEES ARE TENTATIVELY SCHEDULED TO MEET SEPTEMBER 9-13, 2002. END SUMMARY.

14. NEW COMMITTEE COMPOSITION WAS REGIONALLY BALANCED.

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THE FINANCE AND PROGRAM COMMITTEES ARE COMPOSED OF REPRESENTATIVES OF EACH REGIONAL GROUP. THE FINANCE COMMITTEE WAS CHAIRED BY CHILE AND INCLUDED, IN ADDITION TO THE UNITED STATES, REPRESENTATIVES OF JAPAN, KUWAIT, PAKISTAN, SENEGAL, SWITZERLAND, TANZANIA, AND THE UNITED KINGDOM. THE PROGRAM COMMITTEE WAS CHAIRED BY THE DUTCH PERMREP AND INCLUDED REPRESENTATIVES OF AUSTRALIA, CAMEROON, CANADA, CHINA, COLOMBIA, LEBANON, MALAYSIA, MALI, PARAGUAY AND SUDAN. MEMBERS ARE ELECTED BY THE CONFERENCE FOR TWO-YEAR TERMS AND THIS WAS THE FIRST MEETING FOR MOST PARTICIPANTS.

15. DIRECTOR GENERAL CALLS FOR MORE RESOURCES FOR AGRICULTURE

IN HIS REMARKS TO THE JOINT COMMITTEE, THE DIRECTOR GENERAL EMPHASIZED THE LACK OF RESOURCES APPARENT IN ALL EVALUATIONS OF PROGRAMS: STANDARDS SETTING TO INSURE FOOD SAFETY, PREVENTION OF THE SPREAD OF DISEASE, ETC. HE EXPRESSED THE HOPE THAT THE FAO WOULD BE ABLE TO GROW WITH MORE INVESTMENT IN AGRICULTURE, POSSIBLY FORESHADOWING A CALL TO COME AT THE WORLD FOOD SUMMIT; FIVE YEARS LATER WHICH TAKES PLACE JUNE 10-13, 2002.

16. FAO FINANCES DETERIORATED 2000-01.

MEMBERS OF THE FINANCE COMMITTEE WERE CONCERNED BY THE DETERIORATING FINANCIAL HEALTH OF THE FAO. THE CUMULATIVE DEFICIT HAS WIDENED TO \$75.4 MILLION AND THE BALANCES IN THE WORKING CAPITAL FUND AND SPECIAL RESERVE ACCOUNT HAVE REACHED PERILOUSLY LOW LEVELS, \$15.5 MILLION
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AND \$0.5 MILLION RESPECTIVELY. THE FAO MANAGED ITS CASH EXPENDITURES BY USING UNDISBURSED ALLOCATIONS FOR THE TECHNICAL COOPERATION PROGRAM (TCP). HOWEVER, ACCORDING TO CASHFLOW PROJECTIONS PREPARED BY THE SECRETARIAT, IF THE FAO DRAMATICALLY ACCELERATES TCP EXPENDITURES (AS MANY MEMBERS WOULD LIKE) THE ORGANIZATION COULD BE FORCED TO BORROW EXTERNALLY. AT THE CURRENT RATE OF EXPENDITURE THE CASH FLOW BECOMES TIGHT IN SEPTEMBER, BUT WOULD NOT REQUIRE BORROWING TO PAY THE FAO'S BILLS.

17. REASONS FOR DECLINE: ARREARS, INVESTMENT LOSSES, FOREIGN EXCHANGE RATE CHANGES

ARREARS WERE CITED AS THE MAIN REASON FOR THE FAO'S FAILING FINANCES. AS OF MAY 3, 2002 ONLY ONE THIRD OF ALL CONTRIBUTIONS HAD BEEN PAID, THE WORST RECORD IN FIVE YEARS. ARREARS TOTALED \$157 MILLION, NEARLY TWO THIRDS OF WHICH WERE OWED BY THE UNITED STATES. OTHER MAJOR DEBTORS INCLUDE ARGENTINA (\$13.9 MILLION), BRAZIL (\$23.4 MILLION) AND IRAQ (\$5 MILLION). FIFTY SIX MEMBERS HAVE ARREARS IN EXCESS OF TWO YEARS WORTH OF CONTRIBUTIONS

WHICH, ACCORDING TO THE BASIC TEXTS, JEOPARDIZES THEIR
VOTING RIGHTS.

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	E-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	ITC-01	L-00	AC-01	NSAE-00	NSCE-00	OES-01	OIC-02
	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00	TEST-00
	TRSE-00	USIE-00	FMP-00	EPAE-00	DRL-02	G-00	SAS-00
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R 151530Z MAY 02
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3752
INFO USMISSION GENEVA
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18. THE U.S. PERMANENT REPRESENTATIVE (PERMREP) STATED THAT IT REMAINED OUR GOAL TO PAY OUR ARREARS THIS YEAR AND THAT WE WERE WORKING ACTIVELY TO ACHIEVE THAT END. EFFORTS HAD BEEN DELAYED SOMEWHAT BY THE SEPTEMBER 11 TERRORIST ATTACKS IN THE UNITED STATES. OTHER MEMBERS, NOTABLY SENEGAL, WERE ENCOURAGED BY THE U.S. REMARKS. THERE WERE NO COMMENTS AS IN PREVIOUS YEARS CHIDING THE UNITED STATES FOR PLACING ADDITIONAL CONDITIONALITY ON PAYMENT OF ITS ASSESSMENTS.

19. THE COMMITTEE DISCUSSED THREE METHODS OF ACCELERATING COLLECTIONS: INCENTIVE PAYMENTS, SANCTIONS AND EXHORTATION. THE FINANCE COMMITTEE HAD RECOMMENDED THAT THE FINANCIAL INCENTIVE SCHEME, WHICH COSTS ABOUT \$500,000 ANNUALLY, BE ABANDONED, BUT THE CONFERENCE REJECTED THE RECOMMENDATION LAST NOVEMBER AND ACTED TO RETAIN THE SCHEME.

110. SANCTIONS FOR NON-PAYMENT ALREADY EXIST IN THE FORM OF LOSS OF VOTING RIGHTS, BUT, AS NOTED BY THE U.S. PERMREP, ARE NOT ENFORCED. THE GENERAL COMMITTEE OF THE CONFERENCE ROUTINELY APPROVES WAIVERS FOR THOSE MEMBERS WHO CLAIM INABILITY TO PAY ON GROUNDS OF CIRCUMSTANCES BEYOND THEIR CONTROL.

111. THE FINANCE COMMITTEE RECOMMENDED THAT COUNTRIES PARTICIPATING IN THE UPCOMING WORLD FOOD SUMMIT AGAIN BE EXHORTED TO PAY. (LETTER DISTRIBUTED MAY 8 WILL BE FORWARDED TO IO/S VIA FACSIMILE.)

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112. INVESTMENT LOSSES - THE FAO LOST \$16.45 MILLION ON ITS LONG-TERM INVESTMENT PORTFOLIO IN 2001. THIS ABYSMAL RESULT, WHILE CONSISTENT WITH NEGATIVE DEVELOPMENTS IN FINANCIAL MARKETS OVERALL, WAS LESS THAN ITS BENCHMARK (A LOSS OF 16.8 PERCENT VERSUS EXPECTED LOSSES OF 10.5 PERCENT) AND WORSE THAN LOSSES SUFFERED BY COMPARABLE INTERNATIONAL ORGANIZATIONS.

113. REPRESENTATIVES OF FIDUCIARY TRUST COMPANY, FAO'S INVESTMENT FUND MANAGER, BRIEFED THE COMMITTEE ON REASONS FOR THIS POOR PERFORMANCE, NOTING THAT IT NEEDED TO BE SEEN IN LIGHT OF PREVIOUS POSITIVE PERFORMANCE FROM 1990 TO 2001. UNDERPERFORMANCE IN EQUITIES WAS ATTRIBUTED TO OVERWEIGHTING IN THE TECHNOLOGY SECTOR, POOR STOCK SELECTIONS AND THE CURRENCY IMPACT OF NON-USD INVESTMENTS THAT WERE SOLD. COMMENT: IT WAS EMBARRASSING, HOWEVER, WHEN THE EXTERNAL AUDITOR POINTED OUT THAT THE DATE OF SALE OF ENRON STOCK HAD NOT BEEN CORRECTLY REPORTED TO THE COMMITTEE. FIDUCIARY IMMEDIATELY ACCEPTED RESPONSIBILITY AND COMPENSATED FAO FOR THE \$194,684 ERROR. END COMMENT. THE SECRETARIAT LATER EXPLAINED TO COMMITTEE MEMBERS THAT FIDUCIARY TRUST HAD LOST 87 MEMBERS OF ITS STAFF IN THE SEPTEMBER 11 ATTACKS.

114. THE SECRETARIAT RECOUNTED THE HISTORY OF ITS INVESTMENT MANAGEMENT STRATEGY WHICH HAS BEEN HINDERED BY LACK OF SENIOR STAFF IN THE TREASURY OFFICE. THE FAO ADVISORY COMMITTEE ON INVESTMENTS (AIC) HAD STRONGLY ADVISED THE FAO AS RECENTLY AS 2001 TO SECURE ADEQUATE

PERSONNEL TO MONITOR INVESTMENT STRATEGY. NOW THAT A
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SENIOR TREASURY OFFICER HAS BEEN IDENTIFIED FAO CAN
PROCEED TO IMPLEMENT THIS STRATEGY. THE EXTERNAL AUDITOR
EMPHASIZED THE NEED TO REVIEW THE CONTRACT WITH FIDUCIARY
TRUST, WHICH HAD BEEN AUTOMATICALLY RENEWED LAST JANUARY,
AND TO REVIEW THE BENCHMARK 65/35 SPLIT BETWEEN EQUITIES
AND BONDS IN THE INVESTMENT PORTFOLIO. SHE ALSO
SUGGESTED RESCHEDULING MEETINGS OF THE AIC IN ORDER TO
PRECEDE MAY SESSIONS OF THE FINANCE COMMITTEE.

115. ACCOUNTING LOSSES ON FOREIGN EXCHANGE - WHILE THE
PURCHASE OF A CONTRACT FOR FORWARD EXCHANGE HAD PROTECTED
THE FAO BUDGET AGAINST FOREIGN EXCHANGE RATE MOVEMENTS,
THE FALL IN THE VALUE OF THE EURO VIS--VIS THE U.S.
DOLLAR CREATED AN ACCOUNTING LOSS ON FOREIGN EXCHANGE OF
\$23 MILLION. THIS LOSS WAS CHARGED TO THE SPECIAL
RESERVE ACCOUNT. THE U.S. PERMREP POINTED OUT THAT THAT
STRENGTH OF THE U.S. DOLLAR, THE CURRENCY IN WHICH
CONTRIBUTIONS ARE DENOMINATED, HAD ALSO BENEFITED THE
FAO. THE POSSIBILITY OF MAKING CONTRIBUTIONS IN EITHER
EUROS OR DOLLARS WILL BE EXAMINED AT THE SEPTEMBER
SESSION.

116. FAO TAKES MORE PROACTIVE APPROACH TO HUMAN RESOURCE
MANAGEMENT ISSUES

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	E-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	ITC-01	L-00	AC-01	NSAE-00	NSCE-00	OES-01	OIC-02
	OMB-01	OPIC-01	ACE-00	SP-00	SSO-00	STR-00	TEST-00
	TRSE-00	USIE-00	FMP-00	EPAE-00	DRL-02	G-00	SAS-00
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R 151530Z MAY 02
FM AMEMBASSY ROME
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THIS SESSION WAS ATTENDED BY THE DEPUTY DIRECTOR OF THE
FAO, A SIGN THAT HRM ISSUES NOW RECEIVE MORE ATTENTION
FROM HIGH LEVEL MANAGEMENT. THE U.S. PERMREP SPOKE OUT
ON THE NEED FOR IMPROVED GENDER BALANCE AND EQUITABLE
GEOGRAPHIC REPRESENTATION. SHE SAID THESE ORGANIZATIONAL
GOALS HAD TO BE INCORPORATED INTO INDIVIDUAL PERFORMANCE
MANAGEMENT. MANY COMMENTED ON THE NEED TO RESPOND TO
INQUIRIES REGARDING EMPLOYMENT AND TO REDUCE THE TIME
NEEDED FOR RECRUITMENT. IT WAS SUGGESTED THAT
INFORMATION TECHNOLOGY COULD BE BETTER USED TO ACCOMPLISH
THESE GOALS AND TO REACH OUT TO YOUNGER PEOPLE INTERESTED
IN EMPLOYMENT AT THE FAO.

117. THE MOST CONTROVERSIAL ISSUE, HOWEVER, WAS SPOUSAL
EMPLOYMENT. SOME DELEGATES WERE CONCERNED THAT CHANGES
IN THE REGULATIONS GOVERNING EMPLOYMENT OF SPOUSES COULD
LEAD TO NEPOTISM. THE ISSUE WILL BE REEXAMINED AT THE
SEPTEMBER SESSION.

118. PROGRESS REPORT ON THE ORACLE PROJECT

THE SECRETARIAT WAS PLEASED TO REPORT THAT THE ORACLE
PROJECT, WHICH HAD REQUIRED SUPPLEMENTAL FUNDS TO BE
TAKEN FROM PROGRAM ALLOCATIONS, WAS ON TRACK. THE
EQUIPMENT WILL HAVE TO BE UPGRADED SINCE ORACLE HAS
ANNOUNCED IT WILL WITHDRAW SUPPORT OF THE CURRENT
VERSION. HOWEVER, MANY ORACLE CLIENTS, NOT ONLY THE FAO,
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HAVE FOUND THIS PROSPECT EXPENSIVE AND TIME-CONSUMING SO
THE DEADLINE FOR WITHDRAWAL OF SUPPORT HAD BEEN
REPEATEDLY EXTENDED.

119. THE FUTURE PROBLEM AS FORESEEN BY THE SECRETARIAT,

IS THAT FUNDING FOR PHASE II OF THE ORACLE PROJECT, WHICH COVERS HUMAN RESOURCES AND PAYROLL, IS DEPENDENT ON THE PAYMENT OF ARREARS FROM THE "MAJOR CONTRIBUTOR," I.E. THE UNITED STATES. PHASE II IS ESTIMATED TO COST \$25 MILLION WHICH COULD BE MORE IF IMPLEMENTATION IS DELAYED BEYOND DECEMBER 2002.

120. MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN FAO AND THE GLOBAL ENVIRONMENT FACILITY (GEF)

THE FINANCE COMMITTEE EXAMINED AN EXCITING NEW PROJECT FOR FAO, PARTNERSHIP WITH THE GLOBAL ENVIRONMENT FACILITY. THE GEF IS THE FINANCING MECHANISM FOR THE CONVENTIONS OF BIODIVERSITY, CLIMATE CHANGE AND THE STOCKHOLM CONVENTION ON PERSISTENT ORGANIC POLLUTANTS. AT A TIME OF SHRINKING RESOURCES THE GEF OFFERS A SIGNIFICANT POTENTIAL SOURCE OF ADDITIONAL INCOME (POSSIBLY \$40-60 MILLION ANNUALLY) FOR FAO PROJECTS. THE GEF COUNCIL ASKED THAT THE FAO EXTERNAL AUDITOR EXAMINE ITS ACCOUNTS BIANNUALLY, AND AUDIT COSTS WOULD BE PAID FROM PROJECT FUNDS. THE AUDIT REPORT WOULD BE REVIEWED BY THE FINANCE COMMITTEE. DESPITE THE ADDITIONAL WORK GENERATED, THE COMMITTEE ENDORSED THIS NEW DIRECTION FOR THE FAO.

121. WFP REPORTS ON "CONTRIBUTIONS AND WAIVERS OF COSTS" UNCLASSIFIED

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AND THE INDIRECT SUPPORT COST RATE.

AT PRESENT WFP USES A SINGLE RATE OF 7.8 PERCENT FOR ALL CONTRIBUTIONS TO COVER ADMINISTRATIVE COSTS. LAST YEAR THE ACABQ RECOMMENDED THAT THE EXTERNAL AUDITOR REVIEW ACTUAL COSTS TO DETERMINE WHETHER THE 7.8 PERCENT RATE IS REALISTIC. THE EXECUTIVE BOARD ENDORSED THAT RECOMMENDATION. ACCORDING TO A PRELIMINARY REVIEW, 7.8 PERCENT IS CLOSE TO ACTUAL EXPENDITURES, BUT THE EXECUTIVE BOARD WILL BE ASKED TO APPROVE USING THE CURRENT RATE UNTIL THE REVIEW IS COMPLETE, POSSIBLY FOR THE REST OF THE BIENNIAL BUDGET PERIOD.

122. THE UNITED STATES EXPRESSED THE OPINION THAT ISC "INCOME" SHOULD BE RECOGNIZED WHEN CONTRIBUTIONS ARE ACTUALLY RECEIVED, BUT THE EXTERNAL AUDITOR DISAGREED. SHE RECOMMENDED THAT THE SAME METHOD, CASH OR ACCRUAL, BE USED TO TRACK BOTH INCOME AND EXPENSES. USUALLY IN THE UN SYSTEM THE ACCRUAL BASIS FOR ACCOUNTING IS PREFERRED. IN THE CASE OF WFP, WHICH DEPENDS ON VOLUNTARY CONTRIBUTIONS RATHER THAN ASSESSMENTS, FOR "REASONS OF PRUDENCE" ISC INCOME IS RECOGNIZED WHEN RECEIVED. IF THE ACCRUAL BASIS WERE EMPLOYED, INCOME WOULD BE ACCOUNTED FOR WHEN EARNED. (DETAILS WILL BE PROVIDED TO USAID

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ACTION IO-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
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	ITC-01	L-00	AC-01	NSAE-00	NSCE-00	OES-01	OIC-02
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R 151530Z MAY 02
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INFO USMISSION GENEVA
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SEPARATELY.)

123. JOINT COMMITTEE DISCUSSION REVEALS INEQUITIES IN FAO COUNTRY REPRESENTATIVE PROGRAM

THE SECRETARIAT CALLED ATTENTION TO THE GROWING INEQUITY IN THE FAOR PROGRAM. SINCE THE LIMITATION (78) ON THE NUMBER OF COUNTRY OFFICES WAS REACHED FAO HAS STARTED SENDING SENIOR TECHNICAL OFFICERS TO THE FIELD TO MEET GROWING DEMAND. PARTICIPATING MEMBER COUNTRIES MUST

COVER ALL COSTS FOR SUCH REPRESENTATIVES ALTHOUGH IN THE REGULAR PROGRAM REPRESENTATIVES ARE FULLY FUNDED. THE U.S. PERMREP COMMENTED THAT THE CRITERIA FOR PARTICIPATION WAS BUDGET DRIVEN AND THEREFORE DID NOT BENEFIT MEMBERS MOST IN NEED. THE COMMITTEE ASKED FOR MORE INFORMATION OF THE COSTS AND CONTRIBUTIONS TO THIS PROGRAM.

24 PROGRAMME COMMITTEE MEETS

THE MOST SIGNIFICANT AGENDA ITEM FOR THE PROGRAM COMMITTEE WAS THE SPECIAL PROGRAM FOR FOOD SECURITY (SPFS) CLOSELY FOLLOWED BY THE TERMS OF REFERENCE FOR AN EVALUATION OF CODEX ALIMENTARIUS. U.S. POSITIONS WERE PRESENTED BY CANADA AS REPRESENTATIVE OF THE NORTH AMERICA REGIONAL GROUP. REPORT WILL BE SENT SEPTEL.

125. NEXT MEETING AND MAJOR AGENDA ITEMS UNCLASSIFIED

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THE FINANCE AND PROGRAM COMMITTEES ARE TENTATIVELY SCHEDULED TO MEET AGAIN SEPTEMBER 9-13, 2002. IN ADDITION TO SEVERAL PROGRESS REPORTS ON ISSUES DISCUSSED IN MAY, THE FINANCE COMMITTEE WILL TAKE UP THE PROGRAMME IMPLEMENTATION REPORT AND THE MEDIUM TERM PLAN.

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